B5350-2 2/22/83

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

FRIDAY, FEBRUARY 18, 1983 VOLUME XX, NUMBER 8

The Federal Reserve . . .

As the sun's rays grow stronger, so, too, do prospects for recovery. Several economic indicators appear to have at least touched bottom, while an ever-increasing number are spiking higher. This week, industrial production joined the list, rising 0.9 per cent in January month-over-month, the second largest monthly gain in more than two years. What is more, housing starts, which have been ratcheting upward since last summer, surged last month, climbing a record 36 per cent compared with December levels, to a seasonally adjusted annual rate of 1.7 million units. And while all of this can come none too soon for a recession-weary economy, perhaps the best news of all was Federal Reserve Chairman Paul A. Volcker's testimony to Congress on February 16 concerning the stance of monetary policy in 1983.

Against a backdrop of widespread fears that the credit reins would soon be tightened because of rapidly accelerating money supply growth, Chairman Volcker indicated that the Fed would essentially continue to follow the policy first instituted last July—pushing down interest rates to foster economic recovery. Not only were relatively generous money supply growth targets set for this year, intended to be ". . . fully compatible with easier market conditions and lower interest rates in 1983 . . .", but it also became apparent that the Fed was going to do little to eliminate the current bulges in M1 and M2.

One important reason underlying the continuing departure from rigid monetarism—other than that it would make little sense to tighten the monetary reins at this time—is the fact that trends in the monetary aggregates have been distorted by deposit innovations and regulatory reform. For while M1 advanced at a rapid 15.3 per cent seasonally adjusted annual rate clip during the month ending February 2, and M2—the aggregate to watch in 1983 according to the Fed—expanded at an even faster 29.5 per cent seasonally adjusted annual rate in January, nobody really seems to know what all this means.

Indeed, given the uncertain impact on these aggregates arising from the introduction of Super-NOW accounts (included in M1) and money market deposit accounts (included in M2), it has become extremely difficult for the monetary authorities to separate precisely the effects of shifting liquidity preferences on the part of the public from underlying money growth trends. As a result, not only are the ultimate linkages between today's money supply developments and future economic and price trends clouded even more than usual, but so, too, is the appropriate monetary policy response to such developments.

. . . Sets The Stage . . .

As a result, the Fed has found itself looking at ever broader aggregates in an attempt to derive some meaningful signals from money supply trends. But trends in M3, which consists of M2 plus such additional components as large certificates of deposit and institutional money market fund balances, do little to clarify the policymakers' dilemma. For while M1 and M2 developments have suggested some need for less accommodation, M3 trends seemingly point in the opposite direction. It is still within target (even after rising at a seasonally adjusted 11.3 per cent annual rate in January, pushed higher by the M2 explosion), following sluggish growth during the fourth quarter of 1982, when M3 expanded at an annual rate only about one-half the rate of rise posted in the preceding quarter.

In light of these money supply uncertainties, Chairman Volcker and the policy-setting Federal Open Market Committee have had little choice but to tolerate the recent money supply bulges, setting policy based on the needs of the real economy, trends in the rate of inflation and, finally, the monetary aggregates. But, beyond this, the Fed has used the recent bulges in M1 and M2 as an opportunity to give a good-sized shove to money growth in 1983. Take M1, for example. Since its growth targets are going to be calculated from the actual fourth quarter average of the series last year, to the

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fourth quarter average of the series this year, by using an already above-target starting point the base is raised from which 1983's expansion path is charted. This allows for a bigger increase in the money supply than would otherwise have occurred if the base period was either within, or below, 1982's target range.

It works like this. The actual fourth quarter M1 average was 2.8 per cent above its 1982 upper target boundary. If it now expands by a further four per cent in 1983 (the just-announced lower target boundary) then, by the end of this year, M1 will stand 8½ per cent higher than the midpoint of yearend 1982's target range. If, on the other hand, M1 grows by the maximum of eight per cent, by yearend 1983 it would stand almost 13 per cent higher than yearend 1982's midpoint.

. . . For More Ease

Much the same holds for M2—but with one important difference. Since the Fed plans to use a February-March, 1983 average as the base for M2's expansion path this year, (rather than last year's undoubtedly lower fourth quarter average) it signals two things to the financial markets. First, that it will not move to eliminate the current M2 bulge, arising as it does largely due to deposit innovation, and second, that, as with M1, this bulge will be put to good use: namely, to give M2 growth a boost in 1983. And, if that wasn't enough, the growth targets themselves have been raised—with both the upper

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/9/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	142.005	+ .499	+ 7.877
Loans to Depository Inst.	.372	– .013	– 1.290
Float	1.985	– .154	– 1.131
Total Reserve Bank Credit	154.158	+ .381	+ 5.584
Treasury Deposits with Federal Reserve Banks	3.456	+ 1.025	– 1.863
Currency Outside Banks	134.462	+ 1.071	+ 9.897
Member Bank Reserves:			
Required	39.032	– 1.452	– 1.500
Excess (Deficiency)	.288	– .126	+ .171
Total Reserves Held	39.320	– 1.578	– 1.329
Net Free Reserves	.185	– .092	+ 1.391
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.043	– .145	+16.019

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	490.8	+ 12.5‡	+ 8.4‡
M2 (January '83)	2,007.1	+ 16.1	+ 10.9
M3 (January '83)	2,399.7	+ 8.1	+ 10.0
L (September '82)	2,837.7	+ 10.4	+ 10.1

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 2/18/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.90%	8.00%	8.15%
* Federal Agencies	8.20	8.75	9.10
* Project Notes—Taxfree (46% Taxable Equivalent)	7.59	7.78	8.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.45	8.55	9.00

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.13%	Mar.	8.25%
15- 29 days	8.25	Apr.	8.25
30- 59 days	8.25	May	8.25
60- 89 days	8.25	Jun.	8.25
90-179 days	8.25	Jul.	8.25
180-239 days	8.25	Aug.	8.25
240-270 days	8.25		

‡Industrial Paper—Prime		†Federal Funds Effective Rate	8.40%
30- 89 days	8.13%		
90-120 days	8.25		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,472	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 2.5	0.7	– 5.3
Change in Consumer Prices (all urban consumers)*	Dec '82	– 3.6%	1.2%	4.8%
Change in Producer Prices*	Jan '83	– 12.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Jan '83	99,103	99,093	99,688
Unemployment as % of Civilian Labor Force†	Jan '83	10.4%	10.8%	8.6%
Personal Income*	Jan '83n	$ 2,639	$ 2,638	$ 2,499
Leading Indicators Composite Index (1967=100)†	Dec '82	132.8	130.8	127.1
Industrial Production Index (1967=100) †	Jan '83n	136.2	135.0	140.7
Net Change in Consumer Installment Credit†	Dec '82	$ 2.19	$ 2.52	–$ 0.03
U.S. Merchandise Trade Balance †	Dec '82	–$ 3.37	–$ 4.09	–$ 1.81
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Jan '83n	1,716	1,263	877
New Construction Expenditures*	Dec '82	$ 239.0	$ 235.8	$ 228.8
Total Business Inventories †	Dec '82n	$ 505.6	$ 508.6	$ 519.4
Total Business Sales †	Dec '82n	$ 332.7	$ 335.8	$ 341.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

and lower target boundaries lifted by one percentage point from year-earlier levels.

Thus, even in the unlikely event of no further growth in M2 during February and March, the base number would still be almost 3½ per cent above 1982's upper target boundary. After tacking a further increase of seven per cent (the new lower growth target boundary) on top of this, M2 would, by yearend, stand more than 12 per cent above the midpoint of its yearend 1982 target range, while a ten per cent rate of rise would leave it more than 15 per cent above the midpoint of yearend 1982's target range!

What does all this mean? Chairman Volcker's statements suggest that Fed policy will seek to facilitate recovery by creating the environment for lower interest rates ahead. And, with the M1 money supply further de-emphasized and trends in M2 assuming added importance, it will be almost midyear at least before the monetary authorities have to consider tightening the credit reins—if then. This is because M2, a monthly number, will apparently be allowed to seek its own level this month and next, while April's figure will not be available until early May. Additionally, if more than one month is needed to discern a trend, it could well be June or July before the central bank will be sure that it had a money bulge on its hands. Monetarism abandoned? Not exactly, just in evolution to serve the needs of the economy better. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/2/83)	118,219	– 635	–16,761
New York City (2/2/83)	32,089	– 336	– 3,116
Commercial Paper (2/2/83)	167,958	+ 1,393	+ 1,423*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/2/83)	218,551	+ 2,102	+19,687
New York City (2/2/83)	61,417	+ 733	+ 5,070

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/2/83)	507,073	+ 4,560	+33,109
New York City (2/2/83)	119,711	+ 2,093	+ 8,744

Financial Markets

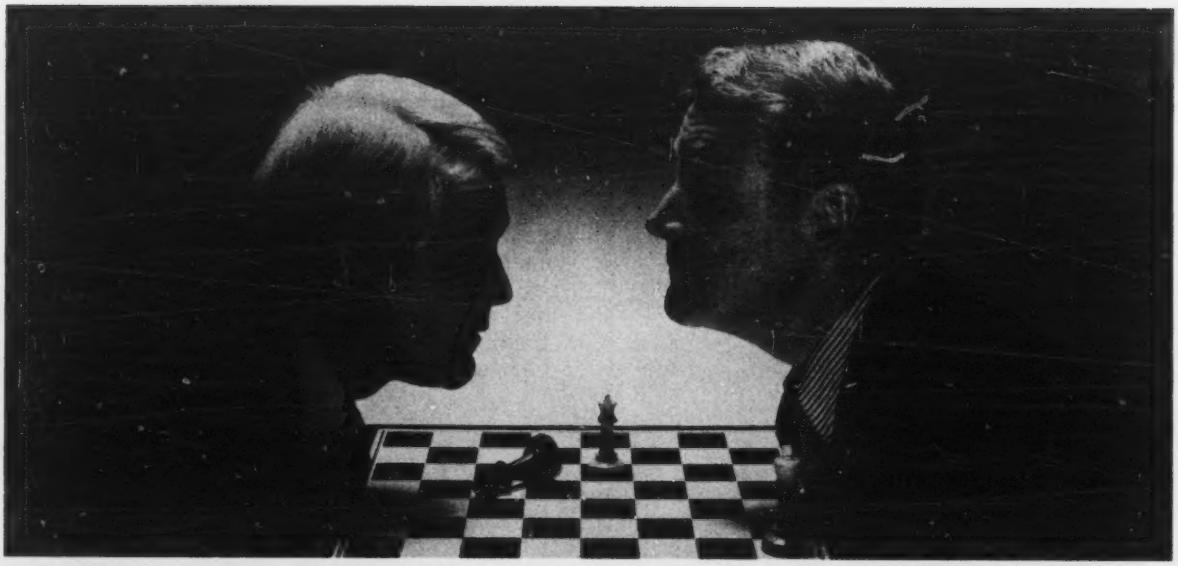
	Friday 2/18/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.25%	– .13	– 5.45
180-Day Bills†	8.55	– .12	– 5.79
Longest Bills†	8.85	– .15	– 6.19
Recent Issues:			
9¼s 1/31/85	9.55	– .10	
10s 12/31/86	9.95	– .20	
10⅞s 2/15/93	10.55	– .25	
10⅜s 11/15/12	10.75	– .17	
Municipals:			
Bond Buyer–20 Bond Index* (2/17/83)	9.53%	– .19	– 3.43
Blue List Total ($ Million)	$ 981	– $ 6	+ $ 226
30-Day Visible Supply ($ Million)	$2,669	+ $546	+ $1,232
Total	$3,650	+ $540	+ $1,458
Corporates:			
Moody's Aa Composite (2/17/83)	12.52%	– .17	– 3.19
30-Day Visible Supply ($ Million) ‡	$ 310	– $100	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,092.82	+ 5.07	+ 268.52
Transportation	480.70	+ .95	+ 137.57
Utilities	124.12	+ .23	+ 19.21
65 Stocks	430.31	+ 1.57	+ 105.97
Standard and Poor's 500 Stocks	148.00	+ .50	+ 34.78
N.Y.S.E. Composite Index	85.44	+ .34	+ 20.01
N.Y.S.E. Avg. Daily Vol. for Week (000's)	79,272	– 5,888	+ 30,038

* 46% Taxable equivalent 17.65%.
‡Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/18/83	Week Ago
Overnight	8.38%	8.63%
1 month	8.88	8.63
3 month	9.06	8.94
6 month	9.25	9.06
1 year	9.63	9.63
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.70%	11.70%
Long Term (7 to 15 yrs.)	11.85	11.85

FOREIGN EXCHANGE SPOT RATES New York Opening (2/18/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02109	47.41
Canada	.8161	1.2254
Denmark	.1174	8.5175
France	.1465	6.8250
Germany	.4160	2.4040
Italy	.0007207	1387.50
Japan	.004268	234.28
Mexico	.006431	155.50
Netherlands	.3762	2.6585
Switzerland	.5003	1.9990
U.K.	1.5440	.6477



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